Pillar 3 Disclosure

Update as at
31 March 2019

MONTE DEI PASCHI DI SIENA
BANK SINCE 1472

Pillar 3 Disclosure

Update as at
31 March 2019

Banca Monte dei Paschi di Siena SpA
Company Head Office in Siena, Piazza Salimbeni 3, www.mps.it
Recorded in the Arezzo-Siena Company Register – Registration no. and tax code 00884060526
MPS VAT Group – VAT no. 01483500524
Member of the Italian Interbank Deposit Protection Fund. Bank Register no. 5274
Parent Company of the Monte dei Paschi di Siena Banking Group, registered with the Banking Groups Register

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Introduction

The New Regulations for the Prudential Supervision of banks and banking groups entered into force as of 1 January 2014.

The regulations aim to align national requirements with the changes introduced to the International regulatory framework, following reforms in the Basel Committee agreements (Basel 3), particularly the European Union's New Regulatory and Institutional Framework for Banking Supervision.

In particular, the contents of the "Basel 3 framework" have been adopted within the EU through two capital requirement rules:

- ✓ CRR – Capital Requirements Regulation (EU) 575/2013 of the European Parliament and Council of 26 June 2013 regarding prudential requirements for credit institutions and investment firms, which amends Regulation (EU) 648/2012;
- ✓ CRD IV – Capital Requirements of the European Parliament and Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

The current regulatory package includes application criteria, set out in the Regulatory Technical Standards (RTS) and Implementing Technical Standards (ITS) adopted by the European Commission, upon the proposal of the European Supervisory Authorities.

At national level, the new harmonized framework has been implemented by Bank of Italy with:

- ✓ Circular 285 of 17 December 2013 and subsequent updates – Supervisory Provisions for Banks;
- ✓ Circular 286 of 17 December 2013 and subsequent updates – Instructions for Prudential reporting for banks and securities' firm;
- ✓ Circular 154 of 22 November 1991 and subsequent updates – Supervisory reports of banks and financial institutions. Reporting templates and instructions for transmission of information flows.

The current regulatory framework aims to improve the ability of banks to absorb shocks arising from financial and economic stress, whatever the source, improve risk management and governance and strengthen the bank's transparency and disclosures, while taking into account developments from the financial crisis.

The Basel Committee has maintained a three Pillars-based approach which was at the basis of the previous capital accord known as “Basel 2”, but has integrated and strengthened it to increase the quantity and quality of banks’ capital base and introduce countercyclical supervisory tools as well as new standards for liquidity risk management and financial deleveraging.

More specifically, Pillar 3 was designed on the notion that Market Discipline can be harnessed to reinforce capital regulation to promote stability and soundness in banks and financial systems.

Pillar 3, therefore, aims to complement the minimum capital requirements (Pillar 1) and supervisory review process (Pillar 2) by developing a set of transparent disclosure requirements which will allow market participants to have access to key, fully comprehensive and reliable information on capital adequacy, risk exposures and risk identification, measurement and management processes.

Public Disclosure (Pillar3) is now governed directly by European Regulation no. 575/2013 of 26 June 2013 of the European Parliament and Council, Part 8 and Part 10, Title I, Chapter 3 (hereinafter referred to as “The Regulations” or “CRR”).

The previous Regulations (Bank of Italy Circular 263/06, Paragraph IV) along with the reporting templates and rules provided therein are to be considered no longer applicable.

Under the new regulations, the CRR requires banks to publish information at least on an annual basis along with their financial statements and to evaluate the need to publish some or all disclosures more frequently than once a year depending on their specific activities. Institutions are to assess the possible need for more frequent disclosure of items of information laid down in Article 437 (Own Funds), and Article 438 (Capital Requirements), and information on risk exposure and other items prone to rapid change.

The EBA (European Banking Authority) subsequently issued its guidelines (EBA/GL/2014/14 of 23-12-2014), on the need to publish information more frequently than once a year.

In December 2016, the European Banking Association (EBA) published its Guidelines on disclosure requirements under Part Eight of the Capital Requirement Regulation (CRR), providing financial institutions with specifications on the information requested in specific articles of Part Eight of the CRR. The EBA has also integrated the outcomes as expected from the aforementioned guidelines, by issuing the LCR Guidelines from art. 435, CRR of June 2017 and the reports guidelines in accordance with the law of art. 473 bis, CRR of January 2018 on transitional arrangements aimed at lessening the impact of the introduction of the IFRS9 on own funds, by introducing additional informational requisites.

The current document, therefore, provides an update as at 31 March 2019 of quantitative information deemed most significant by the Group and, in particular, the quantitative information on Own Funds, Capital requirements and the Leverage Ratio.

For additional information not contained in this document, particularly regarding the general, organizational and methodological aspects relating to the different types of risk, please refer to the Annual Report as at 31 December 2018.

Further information on the Group's risk profile, pursuant to Art. 434 of the CRR, is also published in the Consolidated Interim Report as at 31 March 2019, the Report on Corporate Governance and the Compensation Report. The current update introduces the information templates required by the Basel 3 framework and also reports values as at 31 December 2018.

Pillar 3 Disclosure is prepared at consolidated level by the Parent Company.

Unless otherwise indicated, all the amounts in this report are stated in TEUR (thousand Euros).

The Montepaschi Group regularly publishes its Pillar 3 disclosure on its website at: english.mps.it/investors.

Executive Summary

The Parent Company received the new SREP decision from the Supervisory Authority on 8 February 2019. As regards own funds, the ECB asked BMPS to maintain a Total SREP Capital Requirement (TSCR) of 11% at consolidated level starting from 1 March 2019, which includes a minimum Pillar 1 requirement (P1R) of 8% and an additional Pillar 2 requirement (P2R) of 3%. The P2R is therefore the same as in 2018.

Moreover, as of 1 January 2019, the Group is no longer required to comply with the O-SII Buffer as, for 2019, it was not identified by the Bank of Italy as a systemically important institution authorised in Italy. It should also be noted that from 1 January 2019 the Capital Conservation Buffer is 2.5%. The following table shows the minimum capital requirements which the Group must respect.

Capital adequacy indicators **as at 1° March 2019**	CET 1 Ratio	Tier 1 Ratio	Total Capital Ratio
OCR (TSCR+CBR)	*10.0%*	*11.5%*	*13.5%*
Pillar II Capital Guidance (P2G)	*1.3%*	*-*	*-*
OCR + P2G	**11.3%**	**11.5%**	**13.5%**

TSCR - Total SREP Capital Requirement
OCR - Overall Capital Requirement

As regards its guidance, the ECB expects BMPS to adjust on a consolidated basis to a P2G of 1.3%, compared to 1.5% in 2018. For more insights on the new SREP decision, see also the following Chapter 4.

As at 31 March 2019, the Bank had a CET 1 ratio of 13.28%, higher than the minimum requirements set forth in Article 92 of the CRR and higher than the Total SREP Capital Requirement set by ECB and higher than the Overall Capital Requirement for 2019 (likewise, the Tier 1 ratio and the Total Capital Ratio equal to 13.28% and 14.72%, respectively, are higher than the requirements established by Article 92 of the CRR.).

Capital adequacy indicators **as at 1° March 2019**	CET 1 Ratio	Tier 1 Ratio	Total Capital Ratio
Pillar I minimum Requirements (art. 92 CRR, Pillar I)	*4.50%*	*6.00%*	*8.00%*
TSCR (Pillar I + Pillar II)	*7.50%*	*9.00%*	*11.00%*
Combined Buffer Requirement (CBR)	*2.50%*	*2.50%*	*2.50%*
OCR (TSCR+CBR)	*10.00%*	*11.50%*	*13.50%*
OCR + P2G	**11.30%**	**11.50%**	**13.50%**
Capital Ratios as at 31/03/2019	**13.28%**	**13.28%**	**14.72%**

TSCR - Total SREP Capital Requirement
OCR - Overall Capital Requirement
P2G - Pillar 2 Guidance

The MPS Group's capital requirements for 31 March 2019 and 31 December 2018 and related differences are summarized in the table below.

Own Funds and Capital Requirements Summary

Data in thousands of Euro

			Delta vs. 31-12-2018	
Own Funds	**mar-19**	**dec-18**	**Absolute**	**%**
Common Equity Tier 1	7,953,631	8,020,457	-66,825	-0.8%
Additional Tier 1	-	-	-	-
Tier 2	859,681	857,482	2,199	0.3%
Own Funds	**8,813,312**	**8,877,939**	**-64,627**	**-0.7%**
↳ *of which Delta EL**	*173,336*	*171,131*	*2,205*	*1.3%*
Regulatory Capital Requirements				
Credit and Counterparty Risk	3,729,371	3,674,032	55,339	1.5%
↳ *of which Standard*	*1,405,712*	*1,379,799*	*25,913*	*1.9%*
↳ *of which AIRB*	*2,323,659*	*2,294,234*	*29,426*	*1.3%*
Market Risk	229,046	194,079	34,966	18.0%
↳ *of which Standard*	*229,046*	*194,079*	*34,966*	*18.0%*
↳ *of which Internal Model*	-	-	-	-
Operational Risk	795,780	764,998	30,782	4.0%
↳ *of which Foundation Approach*	*11,734*	*11,734*		
↳ *of which Standardised Approach*	-	-	-	-
↳ *of which Advanced Approach*	*784,046*	*753,264*	*30,782*	*4.1%*
CVA Risk	36,220	36,615	-394	-1.1%
Concentration Risk	-	-	-	-
Settlement Risk	-	-	-	-
Regulatory Capital Requirements	**4,790,417**	**4,669,725**	**120,693**	**2.6%**
Risk Weighted Assets	**59,880,217**	**58,371,557**	**1,508,661**	**2.6%**
of which Credit and Counterparty Risk	*46,617,137*	*45,925,406*	*691,732*	*1.5%*
of which Market Risk	*2,863,074*	*2,425,993*	*437,081*	*18.0%*
of which Operational Risk	*9,947,251*	*9,562,475*	*384,776*	*4.0%*
of which CVA Risk	*452,755*	*457,684*	*-4,929*	*-1.1%*
			Delta vs. 31-12-2018	
Capital ratios			**in bp**	**in %**
CET1 Capital Ratio	**13.28%**	**13.74%**	**-46**	**-0.46%**
Tier1 Capital Ratio	**13.28%**	**13.74%**	**-46**	**-0.46%**
Total Capital Ratio	**14.72%**	**15.21%**	**-49**	**-0.49%**

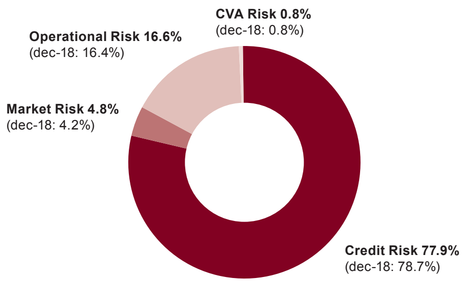
** The value represents the total contribution of the Delta PA, understood as the sum of the positive and deductions, to the determination of the Own Funds under the new regulatory framework. The total amount of the Delta PA, prior to the application of the cap, amounts to 1,082,658 €/thousand (1,123,116 €/thousand as at December 2018)*

Compared to 31 December 2018, CET1 recorded a total decrease of EUR 67 mln, essentially attributable to the reduction in the sterilisation of the IFRS 9 impact connected to the first-time adoption of the accounting standard, as envisaged by EU Regulation 2017/2935 (inclusive of the positive effect of the related DTAs), totalling EUR 150 mln and the effects of the transitional regime of EUR 14 mln, partly offset by the improvement in the balance of the OCI reserve for EUR 53 mln and other reserves for EUR 17 mln, as well as reductions associated with intangible assets, prudent valuation, DTAs and qualified financial investments (totalling EUR 27 mln). It should be noted that CET1 does not include the portion of the result for 1Q2019. Conversely, in respect of the regulatory provisions, the higher deductions for DTAs and qualified investments, whose values are updated at the date of the report, contribute, inter alia, to the calculation of the CET1.

Tier 2 remained substantially unchanged compared to the end of 2018.

The Total Capital Ratio therefore shows an overall decrease in own funds of EUR 65 mln.

RWA by risk type



RWAs recorded an overall increase of EUR 1,509 mln, due to higher RWAs relating to credit and counterparty risk (EUR 692 mln), partly due to the introduction of the new IFRS 16, and higher RWAs relating to market risks (EUR 437 mln) and operational risk (EUR 385 mln). The increase in operational risk is mainly due to the increase of provisions related to the reporting of customers involved in the purchase of diamonds.

3. Own Funds

Own funds, an element of Pillar 1, are calculated according to Basel 3 rules implemented in Europe through a comprehensive body of regulations, consisting of the Capital Requirements Regulation (CRR), European Regulation no. 575/2013, and related integrations, by the Capital Requirements Directive (CRD IV), by Regulatory Technical Standards and Implementing Technical Standards issued by the EBA, and by supervisory instructions issued by Bank of Italy (specifically, Circular nos. 285 and 286). The introduction of a new regulatory framework is subject to a transition period that extends the full application of the rules to 2019 (2022 for the phase-out of certain capital instruments) and during which the new rules will be applied in an increasing proportion.

Own funds, calculated according to the transitional arrangements in force, differ from the net equity book value since prudential regulations aim to protect the quality of assets and reduce any potential volatility caused by the application of IAS/IFRS. The items that constitute own funds, therefore, must be fully available to the Group so that they may be used to cover risks and losses without any restrictions. Institutions are, in fact, required to demonstrate the quality and quantity of own funds in compliance with applicable European legislation. Own funds are made up of Tier 1 capital (T1), in turn consisting of Common Equity Tier 1 (CET1) and of Additional Tier 1 (AT1), and of Tier 2 (T2).

For a detailed description of the items included in Own Funds (CET1, AT1, T2) whether relating to transitional or final requirements, please refer to the Pillar 3 Report as at 31 December 2018.

On 1 January 2018, the new accounting standard IFRS 9 “Financial Instruments”, which replaces IAS 39 (on the classification and evaluation of financial assets and liabilities), came into effect. On January 2018, the Montepaschi Group, availing itself of the option provided for by Regulation UE 2935/2017, has communicated to the competent supervisory authorities the intention to apply the IFRS9 transitional arrangements aimed at mitigating the impact on the own funds linked to the introduction of the new accounting standards. Such transitional regime, applicable from 1 January 2018 to 31 December 2022, as at art. 473 bis, Regulation UE no.575/2013, allows the isolation of the CET1 through a mechanism of gradual introduction of the IFRS 9 impact relative to the amendments carried out during FTA. In particular, coherently with the diminution of the equity linked to the major rectifications arisen from the application of the impairment model introduced by the IFRS9, it is allowed to be included, as positive element, a decreasing progressive quota of the increased reserves for attended credit losses in the Common Equity Tier 1 capital, according to the following percentages:

- ✓ 95% from 1 January to 31 December 2018
- ✓ 85% from 1 January to 31 December 2019
- ✓ 70% from 1 January to 31 December 2020
- ✓ 50% from 1 January to 31 December 2021
- ✓ 25% from 1 January to 31 December 2022.

Here follows the Own Funds quantitative information exposed according to the general model for the publication of the information on the Own Funds (Annex IV of the Rule of Execution (UE) no. 1423/2013 if the European Committee), with the application of the transitional regime IFRS 9 and of the other transitional arrangements in force.

Moreover, the comparison with 31 December 2018 is brought according to the rules in force on 31 December 2018.

Quantitative information

Tab. 3.1.1 – Own funds disclosure template

	Common Equity Tier 1: instruments and reserves	mar-2019	dec-2018
1	Capital instruments and the related share premium accounts	10,328,618	10,328,618
	of which: Paid up capital instruments	*10,328,618*	*10,328,618*
2	Retained earnings	-720,880	-999,458
3	Accumulated other comprehensive income (and other reserves, to include unrealised gain and losses under the applicable accounting standards)	-233,339	-302,070
4	Amount of qualifying items referred to in Article 484 (3) and the related share premiun account subkect to phase out from CET1	-	-
	Public sector capital injections grandfathered until 1 January 2018	-	-
5	Minority Interests (amount allowed in consolidated CET1)	-	-
5a	Independently reviewed interim profits net of any foreseeable change or dividend	-	278,578
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**9,374,399**	**9,305,669**
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	-34,119	-53,286
8	Intangible assets (net of related tax liability) (negative amount)	-249,914	-269,476
10	Deferred tax assets that rely on future probability excluding those arising from temporary differences (net of related tax liability where the conditions in Article 38 (3) are met) (negative amount)	-1,242,354	-1,181,817
11	Fair value reserves related to gains or losses on cash flow hedges	-110	8
12	Negative amounts resulting from the calculation of expected loss amounts	-	-
14	Gains or losses on liabilities valued at fair value resullting from changes in own credit standing	-43,454	-45,322
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-313,710	-313,710
17	Holdings of the CET1 instruments of financial sector entitites where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-
18	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negarive amount)	-	-
19	Direct, indirect and synthetic holdings by the institution of the CET1 instruments of financial sector entitites where the institution has a significant investment in those entities (amount above 10% threshold and net the eligible short positions) (negative amount)	-44,417	-70,700
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)	-116,715	-134,089
22	Amount exceeding the 15% threshold (negative amount)	-457,589	-462,433
23	*of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entites where the institution has a significatn investment in those entitites*	*-228,795*	*-231,216*
25	*of which: deferred tax assets arising from temporary differences*	*-228,795*	*-231,216*
25a	Losses for the current financial year (negative amount)	-	-
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre CRR [1]	1,081,613	1,245,614
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	-	-
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-1,420,767**	**-1,285,212**
29	**Common Equity Tier 1 (CET1) Capital**	**7,953,631**	**8,020,457**

[1] Such item includes tax realignment for -192,281 €/thousands, IFRS 9 transitional adjustments for 1,268,523 €/thousand and others deductions with 17.65% thresholds for 5,370 €/thousands.

Tab. 3.1.2 – Own Funds: Additional Tier 1 (AT1) capital

	Additional Tier 1 (AT1) capital: instruments	mar-2019	dec-2018
30	Capital instruments and the related share premium accounts	-	-
31	*of which: classified as equity under applicable accounting standards*	-	-
32	*of which: classified as liablilities under applicable accounting standards*	-	-
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	-	-
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	-	-
35	*of which: instruments issued by subsidiaries subject to phase out*	-	-
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**-**	**-**
	Additional Tier 1 (AT1) capital: regulatory adjustments		
37	Direct and indirect holdings by an institution of own AT1 instruments (negative amount)		
38	Holdings of the AT1 instruments of financial sector entities where those entitites have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	-	-
39	Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-	-
40	Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	-	-
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	-	-
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**-**	**-**
44	**Additional Tier 1 (AT1) capital**	**-**	**-**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**7,953,631**	**8,020,457**

Tab. 3.1.3 – Own Funds: Tier 2 (T2) capital

	Tier 2 (T2) capital: instruments and provisions	mar-2019	dec-2018
46	Capital instruments and the realted share premium accounts	750,000	750,000
47	Amopunt of qualifying items referred to in Articole 484 (5) and the related share premium accounts subject to phase out from T2	-	-
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	-	-
49	*of which: instruments issued by subsidiaries subject to phase out*	-	-
50	Credit risk adjustments	173,336	171,131
51	**Tier 2 (T2) capital before regulatory adjustments**	**923,336**	**921,131**
	Tier 2 (T2) capital: regulatory adjustments		
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	-	-
53	Holdings iof the T2 instruments and subordinated loans of financial sector entitites where those entitites have recirpocal cross holdings with the institution designed to inflate artificialli the own funds of the institution (negative amount)	-	-
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entitites where the institution does not have a significant investment in those entities (amount above 10% threshdol and net of eligible short positions) (negative amount)	-	-
55	Direct and indrect holdings by the institution of the T2 instruments and subordinated loans fo financial sector entitites where the institution has a significant investment in those entities (net eligible of short positions)	-63,655	-63,649
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No. 575/2013	-	-
	of whichi: Losses for the current year	-	-
	of which: Significant financial instruments	-	-
	of which: Not Significant financial instruments	-	-
	of which: outstanding amount related to the excess of expected losses with respect to adjustments for IRB positions	-	-
56c	Amount to be deducted from or added to Tier 2 capital capital with regard to additional filters and deductions required pre-CRR	-	-
	of which: unrealised gains	-	-
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-63,655**	**-63,649**
58	**Tier 2 (T2) capital**	**859,681**	**857,482**
59	**Total Capital (TC= T1+T2)**	**8,813,312**	**8,877,939**

Tab. 3.1.4 – Own Funds: Capital ratios and buffers

	Capital ratios and buffer	mar-2019	dec-2018
60	**Total Risk Weighted Assets**	**59,880,217**	**58,371,557**
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	13.28%	13.74%
62	Tier 1 (as a percentage of risk exposure amount)	13.28%	13.74%
63	Total capital (as a percentage of risk exposure amount)	14.72%	15.21%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	7.00%	6.44%
65	*of which: capital conservation buffer requirement*	*2.500%*	*1.875%*
66	*of which: countercyclical buffer requirement*	*0.001%*	*0.002%*
67	*of which: systemic risk buffer requirement*	-	-
67a	*of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer*	-	*0.06%*
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount) [2]	6.72%	7.21%
	Capital ratios and buffer		
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	112,591	101,767
73	Direct and indirect holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	731,127	727,542
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	603,592	587,276
	Applicable caps on the inclusion of provisions in Tier 2		
76	Credit risk adjustments included in T2 in respect of exposures subject to standardized approach (prior to the application of the cap)	-	-
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	-	-
78	Credit risk adjustments included in T2 in respect of exposures subject to sIRB approach (prior to the application of the cap)	1,082,658	1,123,116
79	Cap on inclusion of credit risk adjustments in T2 under IRB approach	173,336	171,131
	Capital instruments subject to phase-out arrangements (only 1 Jan 2013 and 1 Jan 2022)		
80	Current cap on CET1 instruments subject to phase out arrangements	-	-
81	Amount excluded from CET1 due to cap (excess mover cap after redemptions and maturities)	-	-
82	Current cap on AT1 instruments subject to phase out arrangements	321,503	321,503
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	328,497	328,497
84	Current cap on T2 instruments subject to phase out arrangements	-	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	-

[2] *Tier 1 capital available for reserves is calculated as the difference between the Common Equity Tier 1 and the requirement referring to Tier 1 capital for the portion covered by Common Equity Tier 1 Capital and Tier total capital components, expressed as a percentage of risk exposure amount.*

Tab. 3.2 – Reconciliation of shareholders' equity and the Common Equity Tier 1

Items	mar-2019	dec-2018
Group Equity	9,088,548	8,991,959
Minority Equity	2,444	2,242
Net Assets of the Balance Sheet	**9,090,992**	**8,994,200**
Net Assets after distribution to shareholders	**9,090,992**	**8,994,200**
Adjustments for instruments computable in AT1 or T2		
- Capital share computable in AT1	-	-
- Minority interests computable	-2,444	-2,242
- Own shares included in the regulatory adjustments	**-313,710**	**-313,710**
- Other components non computable in regime	-110	8
Common Equity Tier 1 (CET1) before the regulatory adjustments	**9,088,438**	**8,991,966**
Regulatory adjustments (including adjustments of the transitional period)	-1,134,807	-971,510
Common Equity Tier 1 (CET1) net of regulatory adjustments	**7,953,631**	**8,020,457**

Tab. 3.3 – Full reconciliation of the components of Common Equity Tier 1, Additional Tier 1 and Tier 2 capital, as well as the filters and deductions applied to the institution's own funds and the balance sheet of the financial statements

Items (Euro mln)	Financial Statement	Prudential Statement	Information about differences	Relevant amount for the purpose of Own Funds	See Table Own funds
Assets					
70. Equity investments	901,735	992,424	90,689	-322,323	8, 18, 19, 23
of which: implicit goodwill	*49,112*	*49,112*		*-49,112*	*8*
100. Intangible assets	200,802	200,802	-	-200,802	8
of which: goodwill	*7,900*	*7,900*		*-7,900*	*8*
of which: other intangible assets	*192,902*	*192,902*	-	*-192,902*	*8*
110. Tax assets	4,062,591	4,062,591	-	-1,587,863	10, 21, 25
of which: tax assets that rely on future profitability and do not arise from temporary differences net of the related deferred tax liability	*1,242,354*	*1,242,354*		*-1,242,354*	*10*
Liabilities and Shareholders' Equity					
10. Financial liabilities measured at amortised cost - c) debt securities issued	14,506,236	14,506,236		750,000	32, 33, 46, 52
30. Financial liabilities designated at fair value	257,488	257,488		-	33
120. Valuation reserves	-123,748	-123,748		-123,858	3, 11
of which: FVOCI	*-60,478*	*-60,478*		*-132,801*	*3 (FVOCI)*
of which: CFH	*110*	*110*		*-110*	*3(CFH),11*
of which: legally-required revaluations	*9,053*	*9,053*		*9,053*	*3(rival)*
of which: other	*-72,433*	*-72,433*		*-*	*3(altre)*
150. Reserves	-830,472	-830,472		-830,472	2, 3
160. Share premium reserve	-	-		-	-
170. Share Capital	10,328,618	10,328,618		10,328,618	1, 2, 31
180. Treasury shares	313,710	313,710		-313,710	16
200. Profit/loss for the period	27,859	27,859		-	5a, 25a
Fair value gains and losses arising from the institution's own credit risk related to derivative liabilities				-43,454	14
Value adjustments due to the requirements for prudent valuation				-34,119	7
IRB Shortfall of credit risk adjustments to expected losses				-	12
IRB Excess of provisions over expected losses eligible				173,336	50
Filter on double tax realignment				-192,281	26b
Filter for IAS 19 and IFRS 9				1,273,893	26b
Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities				-	39
Direct and indirect holdings of Tier 2 instruments of financial sector entities where the institution has a significant investment				-63,655	54, 55
Indirect investments					
Total Own Funds				**8,813,312**	

The information was summarized according to the methodology described in Annex I of the Implementing Regulation (EU) No. 1423/2013 which establishes technical standards implementation with regard to the disclosure on Own Funds.

4. Capital requirements, liquidity ratios and leverage

The Montepaschi Group pursues strategic objectives focused on quantitative and qualitative strengthening of capital, structuring rebalancing of liquidity and achievement of sustainable levels of profitability. In this perspective, capital management, planning and allocation activities play a crucial role in ensuring compliance over time with the minimum capitalisation requirements set by the regulations and the supervisory authorities, as well as with the risk appetite level approved by the Group's strategic supervision body.

This is the purpose served by the Risk Appetite Framework (RAF) through which the target capitalisation levels are estimated on a yearly basis and capital is allocated to the business units according to expected development and estimated risk levels, making sure that the allocated capital is sufficient to ensure compliance with minimum requirements, under both normal and stress conditions.

In the context of the RAF, prospective capital adequacy assessments are performed over a multiyear period, under both normal and stress conditions.

The achievement of objectives and compliance with regulatory minimum requirements is constantly monitored throughout the year.

The formal corporate processes to which the RAF is applied at least on an annual basis are the budget, the risk appetite, the ICAAP and the ILAAP.

The Budgeting, Planning, Capital and Risk Management processes of the Montepaschi Group are based on the "Risk Adjusted Performance Management" (RAPM) logic.

The Montepaschi Group defines its targets on the basis of a Risk Adjusted Performance Measurement (RAPM), which measures profitability net of the cost of capital to be held for regulatory purposes relative to the assumed risk level.

The definitions of equity applied are those used in Supervisory Regulations: Common Equity Tier 1, Tier 1 and Capital; moreover, the RAPM metrics also include Invested Capital, i.e. the amount of Shareholders' equity needed to achieve Common Equity Tier 1 values, whether determined ex ante as target levels or realised ex post.

The Capital Risk concepts applied are those in the regulatory requirements, corresponding to the Risk Weighted Assets (RWAs), determined on the basis of the rules set out in the supervisory regulations, and the economic capital corresponding to the maximum losses estimated on measurable risks at a predetermined confidence interval and on the basis of the Group's internal models and rules. Both measurements are used as part of RAPM metrics.

Following the implementation of the regulatory framework, Pillar 1, which governs the requirements used to reflect the potential risk of activities as well as capital requirements, was strengthened through a more harmonised definition of capital as well as higher capital requirements. Therefore, alongside the minimum levels of capital required to face credit, counterparty, market and operational risks, a definition of higher quality capital has been added to own resources, essentially focused on common equity.

Also added are capital reserves which have the function of preserving primary capital, providing counter-cyclical buffers and hedging against greater losses for systemically important financial institutions.

These reserves are determined by the Member States (Bank of Italy) in accordance with the framework, and are to be added to Core Equity Tier 1. In addition to the system of minimum capital requirements and reserves, there is now a monitoring plan of leverage caps (including off-balance sheet exposures) as a backstop to capital requirements based on risk and to reduce excessive leverage across the system.

The regulatory framework also introduces liquidity risk monitoring requirements and tools which focus on short-term liquidity resilience (Liquidity Coverage Ratio - LCR) and longer term structural balance (Net Stable Funding Ratio - NSFR) as well as providing standards for liquidity risk management and monitoring at both individual and system-wide level.

Capital adequacy

Under Prudential requirements, as of January 2014 all banks must comply with a CET1 ratio of at least 4.5%, a Tier 1 ratio of at least 6% and a Total capital Ratio of at least 8% of the Group's total risk exposure. Additionally, Banks are also required to hold the following buffers against Pillar 1 risks. In addition to maintaining these minimum requirements against Pillar 1 risk, there is a further Core Equity Tier 1 component against Pillar 2 risk, established following the annual SREP, as well as the following buffers:

- a capital conservation buffer aimed at conserving the minimum level of regulatory capital during difficult periods in the market, through the allocation of high quality capital in periods in which there are no market tensions. This reserve is mandatory and must be at least 1.875% from 1 January 2018 to 31 December 2018; 2.5% from 1 January 2019;
- a countercyclical capital buffer aimed at protecting the banking sector in phases of excessive growth in loans. The buffer provides for the accumulation of CET1 capital during phases of rapid growth in the credit cycle, which can then be used to absorb losses in the downward phase of the cycle. As opposed to the capital conservation buffer, the countercyclical buffer is imposed only during periods of

loan growth and is calculated according to CRD IV provisions by the competent national authorities; in the first quarter of 2019, the countercyclical buffer coefficient for Italy was kept at 0%. For the other credit exposures the Group uses the values of the countercyclical buffer established by the counterparty's Member State authorities in accordance with applicable regulations;

- G-SII buffer for global systemically important banks and O-SII buffer for other systemically important institutions - impose higher capital requirements on those entities based on their systemic relevance, at a global or national level, which pose greater risks for the financial system and for which a crisis could have impacts on contributors. The Bank of Italy's decision established an O-SII buffer of 0.06% for 2018, 0.13% for 2019, 0.19% for 2020 and 0.25% starting from 2021. The Group is not a Global Systemically Important Institution (G-SII) but until the end of 2018 it was classed as an Other Systematically Important Institution (O-SII), as defined by the Bank of Italy. For each bank or banking group, this identification took into onsideration the four characteristics (size, relevance for the Italian economy, complexity and interconnection with the financial system) specified in the EBA guidelines to establish the systematic relevance of each entity at the level of individual jurisdiction;
- A non-cyclical systemic risk or macroprudential buffer to be set by the Member States and currently not yet determined by the Bank of Italy.

The combination of these buffers determines the Combined Buffer Requirement (CBR).

Capital requirements – 2019

The Parent Company received the new SREP decision from the Supervisory Authority on 8 February 2019. As regards own funds, the ECB asked BMPS to maintain a total SREP capital requirement of 11% at consolidated level starting from 1 March 2019, which includes a minimum Pillar 1 requirement (P1R) of 8% and an additional Pillar 2 requirement (P2R) of 3%. The P2R is therefore the same as in 2018.

Moreover, as of 1 January 2019, the Group is no longer required to comply with the O-SII Buffer as, for 2019, it was not identified by the Bank of Italy as a systemically important institution authorised in Italy. It should also be noted that from 1 January 2019 the Capital Conservation Buffer is 2.5%

The following table shows the minimum capital requirements which the Group must respect.

Capital adequacy indicators as at 1° March 2019	CET 1 Ratio	Tier 1 Ratio	Total Capital Ratio
Pillar I minimun Requirements (art.92 CRR, Pillar I)	4.50%	6.00%	8.00%
Pillar 2 Requirement (P2R)	3.00%	3.00%	3.00%
TSCR (Pillar I+P2R)	7.50%	9.00%	11.00%
Combined Buffer Requirement (CBR)	2.50%	2.50%	2.50%
of which: Capital Conservation Buffer	*2.50%*	*2.50%*	*2.50%*
of which: Countercyclical Capital Buffer	*0.001%*	*0.001%*	*0.001%*
OCR (TSCR+CBR)	**10.00%**	**11.50%**	**13.50%**

TSCR - Total SREP Capital Requirement
OCR - Overall Capital Requirement

As regards its guidance, the ECB expects BMPS to adjust on a consolidated basis to a P2G of 1.3%, compared to 1.5% in 2018. The target ratios required by the EBC must be complied with at all times when the Authority's Decision is in force; similarly, at those times the Parent Company may not distribute dividends to shareholders or pay cash flows to holders of AT1 instruments.

Please note that failure to comply with the Pillar 2 Guidance (P2G) requirement is not equivalent to failure to comply with capital requirements; however, in the case of a reduction of capital below the level that includes the P2G requirement, BMPS will need to promptly disclose the reasons for non-observance to the Supervisory Authority, which will evaluate and communicate any measures on a case by case basis.

As at 31 March 2019, the Bank had a CET 1 ratio of 13.28%, higher than the minimum requirements set forth in Article 92 of the CRR and higher than the Total SREP Capital Requirement set by ECB and higher than the Overall Capital Requirement for 2019 (likewise, the Tier 1 ratio and the Total Capital Ratio equal to 13.28% and 14.72%, respectively, are higher than the requirements established by Article 92 of the CRR.).

Capital adequacy indicators as at 1° March 2019	CET 1 Ratio	Tier 1 Ratio	Total Capital Ratio
Pillar I minimun Requirements (art.92 CRR, Pillar I)	4.50%	6.00%	8.00%
TSCR (Pillar I + Pillar II)	7.50%	9.00%	11.00%
Combined Buffer Requirement (CBR)	2.50%	2.50%	2.50%
OCR (TSCR+CBR)	10.00%	11.50%	13.50%
OCR + P2G	**11.30%**	**11.50%**	**13.50%**
Capital Ratios as at 31/03/2019	**13.28%**	**13.28%**	**14.72%**

TSCR - Total SREP Capital Requirement
OCR - Overall Capital Requirement
P2G - Pillar 2 Guidance

Quantitative information

As to the definition of regulatory capital requirements, in June 2008 the Montepaschi Group was authorised to use the Advanced Internal Rating Based (AIRB) models for the measurement of capital requirements against credit risk in the retail and corporate portfolios and the Advanced Measurement Approach (AMA) for operational risk.

The AIRB model's scope of application currently includes the Parent Company Banca MPS, MPS Capital Services Banca per le Imprese and MPS Leasing & Factoring, for the regulatory portfolios "Retail Exposures" and "Exposures to corporates". For the remaining portfolios and Group entities, capital requirements against Credit risk are calculated using the standard approach.

Capital requirements against Counterparty risk are calculated independently of the portfolio. More specifically, the Market value method is applied for OTC derviatives and the comprehensive approach for the treatment of financial collateral is used for repos, sell-buy backs and security lending.

Capital requirements against CVA risk are calculated according to the standard approach.

Capital ratios for Operational Risk are calculated almost completely according to the AMA – Advanced Measurement Approach. The standardized approach is used for the remaining part of the scope.

Capital requirements in relation to market risk are instead calculated for all Group entities by adopting the standardized approach.

In the following tables, the details of the Group property requirements are exposed as at 31 March 2019, according to the application of the transitional regime IFRS 9 and of the other transitional arrangements in force.

Tab. 4 – Capital requirements and Regulatory capital ratios

Regulatory Capital Requirements	mar-19	dec-18
Credit and Counterparty Risk	**3,729,371**	**3,674,032**
Standard Approach	1,405,712	1,379,799
Advanced IRB Approach	2,323,659	2,294,234
Market Risks	**229,046**	**194,079**
Standardised Approach	229,046	194,079
Internal Models	-	-
Operational Risk	**795,780**	**764,998**
Foundation Approach	11,734	11,734
Standardised Approach	-	-
Advanced Approach	784,046	753,264
CVA Risk	**36,220**	**36,615**
Originary Exposure Method (OEM)	-	-
Standardised Approach	36,220	36,615
Advanced Approach	-	-
Concentration Risk	-	-
Settlement Risk	-	-
Regulatory Capital Requirements	**4,790,417**	**4,669,725**
Risk-weighted assets	**59,880,217**	**58,371,557**
CET1 Capital Ratio	**13.28%**	**13.74%**
Tier1 Capital Ratio	**13.28%**	**13.74%**
Total Capital Ratio	**14.72%**	**15.21%**

Report on IFRS 9

Having opted for the adoption of the transitional arrangements, the Group, under the EBA Guidelines GL 2018/01, is required to provide a comparison between own funds, risk-weighted assets, capital and leverage ratios, with and without the application of the IFRS 9 transitional arrangements or equal losses on credits. Here follows the required information, according to the specified informative model in the Annex I of EBA Guidelines GL 2018/01 on uniform disclosure requirements of IFRS 9.

Tab. 4a – (EU IFRS9-FL) – Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs

		mar-19	dec-18	sep-18	jun-18
Available capital (amounts)					
1	Common Equity Tier 1 (CET1) capital	7,953,631	8,020,457	7,899,975	8,372,975
2	Common Equity Tier 1 (CET1) capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	6,685,108	6,603,686	6,529,802	6,763,590
3	Tier 1 capital	7,953,631	8,020,457	7,899,975	8,372,975
4	Tier 1 capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	6,685,108	6,603,686	6,529,802	6,763,590
5	Total capital	8,813,312	8,877,939	8,776,189	9,243,815
6	Total capital as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	7,544,789	7,461,168	7,406,016	7,634,429
Risk-weighted assets (amounts)					
7	Total risk-weighted assets	59,880,217	58,371,557	63,226,689	64,274,470
8	Total risk-weighted assets as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	59,698,605	58,166,722	63,150,315	63,589,518
Capital Ratios					
9	Common Equity Tier 1 (as a percentage of risk exposure amount)	13.28%	13.74%	12.49%	13.03%
10	Common Equity Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	11.20%	11.35%	10.30%	10.64%
11	Tier 1 (as a percentage of risk exposure amount)	13.28%	13.74%	12.49%	13.03%
12	Tier 1 (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	11.20%	11.35%	10.34%	10.64%
13	Total capital (as a percentage of risk exposure amount)	14.72%	15.21%	13.88%	14.38%
14	Total capital (as a percentage of risk exposure amount) as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	12.64%	12.83%	11.73%	12.01%
15	Leverage ratio total exposure measure	141,650,938	145,308,685	143,483,814	150,802,982
16	Leverage ratio	5.62%	5.52%	5.51%	5.55%
17	Leverage ratio as if IFRS 9 or analogous ECLs transitional arrangements had not been applied	4.73%	4.56%	4.55%	4.50%

The application of the IFRS 9 fully loaded without taking into account the impact deriving from the cohesion with the transitional regime expected from 2018, would have entailed a reduction of 208 bp respectively of CET1 ratio and Total Capital ratio. Such coefficients would have resulted in 11.20% (instead of 13.28% - transitional arrangements) and 12.64% (instead of 14.72%).

IFRS 9 fully-loaded application would have entailed a total CET1 decrease of about EUR 1.3 bn linked to major provisions implemented during FTA on IRB credit exposure.

The following table provides a general overview of the total RWAs and capital requirements.

Tab. 4b (EU OV1) – Overview of RWAs

			RWAs		Minimum capital requirements	
			mar-19	dec-18	mar-19	dec-18
	1	**Credit risk (excluding CCR)**	**43,776,129**	**43,141,045**	**3,502,090**	**3,451,284**
Article 438, c) d)	2	Of which the standardised approach	15,180,632	14,919,827	1,214,451	1,193,586
Article 438, c) d)	3	Of which the foundation IRB (FIRB) approach	-	-	-	-
Article 438, c) d)	4	Of which the advanced IRB (AIRB) approach	28,595,497	28,221,218	2,287,640	2,257,697
Article 438, d)	5	Of which equity IRB under the simple risk-weighted approach or the IMA	-	-	-	-
Article 107, Article 438 c) d)	6	**CCR**	**2,080,045**	**2,045,999**	**166,404**	**163,680**
Article 438, c) d)	7	Of which mark to market	806,743	771,136	64,539	61,691
Article 438, c) d)	8	Of which original exposure	-	-	-	-
	9	Of which the standardised approach	-	-	-	-
	10	Of which internal model method (IMM)	-	-	-	-
Article 438, c) d)	11	Of which risk exposure amount for contributions to the default fund of a CCP	6,622	11,614	530	929
Article 438, c) d)	12	Of which CVA	452,755	457,684	36,220	36,615
Article 438, e)	13	**Settlement risk**	-	-	-	-
Article 449, o) i)	14	**Seecuritisation exposures in the banking book (after the cap)**	**166,472**	**156,025**	**13,318**	**12,482**
	15	Of which IRB approach	156,388	156,025	12,511	12,482
	16	Of which IRB supervisory formula approach (SFA)	-	-	-	-
	17	Of which internal assessment approach (IAA)	-	-	-	-
	18	Of which standardised approach	10,084	-	807	-
Article 438, e)	19	**Market risk**	**2,863,074**	**2,425,993**	**229,046**	**194,079**
	20	Of which the standardised approach	2,863,074	2,425,993	229,046	194,079
	21	Of which IMA	-	-	-	-
Article 438, e)	22	**Large exposures**	-	-	-	-
Article 438, f)	23	**Operational risk**	**9,947,251**	**9,562,475**	**795,780**	**764,998**
	24	Of which basic indicator approach	146,680	146,680	11,734	11,734
	25	Of which standardised approach	-	-	-	-
	26	Of which advanced measurement approach	9,800,571	9,415,795	784,046	753,264
Article 437(2), Article 48 and 60	27	**Amounts below the thresholds for deduction (subject to 250% risk weight)**	**1,047,247**	**1,040,020**	**83,780**	**83,202**
Article 500	28	Floor adjustment	-	-	-	-
	29	**Total**	**59,880,217**	**58,371,557**	**4,790,417**	**4,669,725**

The sum of rows 1,6 (excluding row 12), 14 and 27 is consistent with the item of total credit and counterparty risk of tables 4.1 and 4.2. Row 6 in addition to rows 7,8,9,10,11 and 12, includes the amount related to the financial collateral comprehensive method (for SFTs) equal to 813,925 of RWA as at 31/03/2019.

As of 31 March 2019 RWAs recorded an increase, compared to the previous quarter, mainly attributable to the increase in RWA related to Credit Risk, due to the increased disbursements as well as to the impacts related to the introduction of the new IFRS16 on RWA related to the standard approach.

The increase in RWA related to Market Risk is mainly due to the acquisition of new debt securities, securitisations, and UCITs.

Tab. 4.1 – Capital requirements for Credit and Counterparty Risk

	mar-19	dec-18
	Requirements	Requirements
Standard Approach		
Standard Approach Total	**1,405,712**	**1,379,799**
of which: Counterparty Risk	*106,145*	*102,082*
IRB Approach		
IRB Approach Total	**2,323,659**	**2,294,234**
of which: Counterparty Risk	*23,509*	*24,054*
Total	**3,729,371**	**3,674,032**
of which: Counterparty Risk	***129,653***	***126,136***

The Capital Requirement for Counterparty Risk amounts to 129,653 €/thousand and has been calculated on both the Trading Portfolio and the Banking Book. The requirement, summarised by methodology in table 4.1, is reported in the individual regulatory portfolios of the Standard Appoach and the AIRB Approach in table 4.2.

Table 4.2 shows the capital requirements for credit risk and counterparty risk broken down by approach and class of exposure.

Tab. 4.2 – Capital requirements for Credit and Counterparty Risk

Standard Approach	mar-19	dec-18
Exposures to central governments and central banks	161,010	158,959
Exposures to regional governments and local authorities	26,981	27,229
Exposures to public sector entities	32,333	31,153
Exposures to Multi-lateral development banks	-	-
Exposures to International Organisations	-	-
Exposures to Supervised institutions	154,909	165,328
Exposures to Corporates	282,998	306,277
Retail Exposures	61,375	63,562
Exposures secured by mortgages on immovable property	48,082	45,260
Exposures in Default	51,169	52,369
Exposures associated with high-risk	75,647	75,255
Exposures in the form of covered bonds	6,965	7,019
Exposures to institutions and corporates with a short-term credit assessment	-	-
Exposures to UCITs	17,737	18,142
Equity Exposures	148,319	149,775
Other Exposures	336,850	278,541
Securitization positions	807	-
Exposures to Central Counterparties in the form of pre-funded contributions to the guarantee fund	530	929
Standard Approach Total	**1,405,712**	**1,379,799**
AIRB Approach		
Exposures to or secured by corporates:	1,683,959	1,636,008
- SMEs	817,654	817,559
- Other companies	747,237	704,933
- Specialized lending	119,067	113,515
Retail exposures:	627,190	645,744
- Secured by real estate: SMEs	140,969	148,644
- Secured by real estate: Individuals	204,910	206,366
- Qualifying revolving	578	652
- Other retail exposures: SMEs	254,788	262,880
- Other retail exposures: Individuals	25,944	27,202
Securitization positions	12,511	12,482
AIRB Approach Total	**2,323,659**	**2,294,234**
Credit and Counterparty Risk Total	**3,729,371**	**3,674,032**

Below is a breakdown of capital requirements for Credit and Counterparty Risk (IRB method) – Specialised Lending – slotting criteria, for Market Risk and Operational Risk.

Tab. 4.3 – Capital requirements for Credit and Counterparty Risk (IRB methods) – Specialised lending - slotting criteria

Risk weight	mar-19	dec-18
Category 1 - 50%	36	36
Category 1 - 70% equal to or greater than 2.5 years	1,668	1,672
Category 2 -70% less than 2.5 years	6,917	7,769
Category 2 - 90%	71,069	69,520
Category 3 - 115%	33,196	28,288
Category 4 - 250%	6,179	6,230
Category 5 - 0%	-	-
Total	**119,067**	**16,388**

Tab. 4.4 – Capital requirements for Market Risk

Standardised Approach	mar-19	dec-18
Position risk on debt instruments	145,332	126,630
Position risk on equity	36,248	37,680
Foreign exchange risk	10,919	6,210
Commodities risk	9,293	8,402
CIU Risk	27,255	15,157
Total Standardised Approach	**229,046**	**194,079**
Internal models		
Total Internal models	**-**	**-**
Total Market Risks	**229,046**	**194,079**

Tab. 4.5 – Capital requirements for Operational Risk

Requirements by Approach	mar-19	dec-18
Foundation Approach	11,734	11,734
Standardised Approach	-	-
Advanced Measurement Approach	784,046	753,264
Total Operational Risk	**795,780**	**764,998**

The following table shows the main changes in RWA and capital requirements for credit risk under the IRB approach.

Tab. 4.6 (EU CR8) – RWA flow statements of credit risk exposures under the IRB approach

		a RWA amounts	b Capital requirements
1	**RWAs as at 31 December 2018**	**28,377,243**	**2,270,179**
9	**RWAs as at 31 March 2019**	**28,751,643**	**2,300,131**

The growth of 0.4 billion of the RWA of credit risk exposures under the IRB approach is mainly due to the effect of the new disbursements. The amounts are net of the counterparty risk component.

Countercyclical Capital Buffer

As of 31 March 2019, the Montepaschi Group is required to hold a countercyclical capital buffer of EUR 598.8 thousands. This buffer, as established by Article 130 of the CRD IV, is equal to the total risk exposure amount (expressed in terms of risk-weighted assets) multiplied by the institution's specific countercyclical rate, which, for the Montepaschi Group, stands at 0.001%. The latter is equal to the weighted average of the countercyclical rates applicable in the countries where the Institution has exposures. Each Member State, in accordance with article 130, paragraph 1 of Directive 2013/36/UE of the European Parliament and Council (CRD), shall require institutions to maintain an institution-specific countercyclical capital buffer against exposures to their own Country and establish the related countercyclical buffer rate. In particular, the Bank of Italy has set the countercyclical buffer rate for exposures to Italian counterparties at 0% for 2018 and the first quarter of 2019. As far as the other credit exposures are concerned, the Group uses the rates established by the competent authorities of the State in order to calculate its own indicator. As of 31 March 2019, only the competent authorities of United Kingdom, Hong Kong, Sweden, Norway, Czech Republic, Slovak Republic, Lithuania and Iceland among the Countries to which the Group has relevant exposures for the purpose of calculating the countercyclical buffer, have established a non-zero countercyclical capital buffer rate. As shown in the following tables, the Montepaschi Group holds 94.97% of relevant exposures to Italy, which has a 0% rate, for the purpose of calculating the countercyclical buffer. Reported below are the main items of calculation of the countercyclical capital buffer, presented in the standard format shown in table 2, Attachment I of Commission Delegated Regulation (EU) 1555/2015.

Tab. 4.7 – Amount of institution-specific countercyclical capital buffer

		mar-19
10	Total risk exposure amount	59,880,217
20	Institution specific countercyclical buffer rate	0.001%
30	Institution specific countercyclical buffer requirement	598.8

Liquidity Ratios and Leverage Ratio

With reference to the liquidity indicators, Liquidity Coverage Ratio and the Net Stable Funding Ratio, the observation period by the Supervisory Authorities began in March 2014. As of October 2015, the minimum obligatory requirement for the Liquidity Coverage Ratio came into force, with a level that gradually increases over the years (100% in 2018). The Liquidity Cover Ratio was 241% as at 31 March 2019, well above the minimum of 100% required for the year 2019.

As regards the Net Stable Funding Ratio, EU legislation does not currently contemplate a regulatory limit.

Leverage Ratio

In addition to the system of capital requirements aimed at covering credit, counterparty, market, operational, CVA and regulatory risks, it is expected that the current regulatory framework will monitor a limit on leverage with a twofold purpose to limit the accumulation of debt within the banking industry so as to avoid destabilizing deleveraging process which may harm the financial system and the economy in general, and to strengthen the system of capital requirements associated with risk with a simple backstop measure that is not based on risk profile.

To this end, Circular no. 285 of 17 December 2013 of the Bank of Italy, “supervisory Provisions for banks” requires banks to calculates their leverage ratio.

As required by the Regulation EU 62/2015, the Leverage Ratio is calculated as a ratio between Tier1 and a denominator that is based on the non-risk weighted assets (including off-balance sheet exposures) calculated at the end of the quarter. The exposures must be reported net of the regulatory adjustments included in the calculation of T1 in order to avoid any double counting. At present, the minimum threshold for the Leverage Ratio have not yet been established by the Supervisory Authorities. However, as of 1 January 2015, quarterly disclosure has become obligatory in addition to the disclosure requirement already in force. Moreover, as provided for by Commission Implementing Regulation (EU) 2016/200 of 15 February 2016, banks publish this disclosure as of 16 February 2016, the date following this regulation’s publication in the Official Journal of the European Union. The Group's leverage ratio was 5.62% as at 31 March 2019. Using regulatory capital calculated by applying the rules established for full implementation, the ratio stands at 4.73%.

In accordance with public disclosure requirements, the data necessary for its calculation is provided below.

The templates used to report the information are those provided for by the ITS on Disclosure (*see* "EBA FINAL draft Implementing Technical Standards on disclosure of the leverage ratio under Article 451(2) of Regulation (EU) No 575/2013 (Capital Requirements Regulation – CRR) - Second submission following the EC's Delegated Act specifying the LR" - link) published by the EBA on 15/06/2015 and included in the Commission Implementing Regulation (EU) 2016/200 of 15 February 2016.

The table below show the financial leverage ratio as at 31 March 2019. The figures shown relate to the calculation of the leverage ratio according to applicable transitional provisions for reporting purposes.

Tab. 4.8 – Leverage Ratio

		mar-19	dec-18
Capital and total exposures			
20	Tier 1 capital	7,953,631	8,020,457
21	Total exposures	141,650,938	145,308,685
Leverage ratio			
22	Basel III leverage ratio	5.62%	5.52%

Process used to manage the risk of excessive leverage

(in accordance with article 451(1) letter d) of the CRR)

The Group's Risk Appetite Framework (RAF) constitutes the basic risk management framework in the Montepaschi Group. The RAF is governed at Group level by a regulatory framework that establishes a system of governance, processes, tools and procedures for fully managing the Group's risk. Leverage risk is included in the RAF and is therefore subject to the control procedures contained therein. The Leverage Ratio is one of the Key Risk Indicators monitored within the RAF for 2019. As at 31 March 2019, the Group recorded a slight growth in the financial leverage indicator linked to the decrease in total exposures respect to 31 December 2018.

Declaration of the Financial Reporting Officer

Pursuant to para. 2, article 154-bis of the Consolidated Law on Banking, the Financial Reporting Officer, Mr. Nicola Massimo Clarelli, declares that the accounting information contained in this document corresponds to the underlying documentary evidence and accounting records.

Siena, 9 May 2019

Nicola Massimo Clarelli

Financial Reporting Officer

Nicola Massimo Clarelli

List of Tables

Appendix 1: Summary of Information published in line with CRR requirements

CRR Article		*Reference to the present document Pillar III*
Art. 431 - *Scope of disclosure requirements*	*Par.1; 2 ;3; 4*	**Introduction**
Art. 432 - *Non-material, proprietary or confidential information*		**Introduction**
Art. 433 - *Frequecy of disclosure*		**Introduction**
Art. 434 - *Means of disclosure*		**Introduction**
Art. 435 - *Risk management objectives and policies*	*Par.2*	**Introduction**: reference to the link: https://www.gruppomps.it/corporate-governance/relazioni-corporate-governance.html
Art. 437 - *Own Funds*	*Par.a*	**Chapter 3** - Own Funds - Tab. 3.2; Tab. 3.3
	Par. d	**Chapter 3** - Own Funds - Tab. 3.1.1/3.1.2/3.1.3/3.1.4
	Par. e/ f	**Chapter 3** - Own Funds
Art. 438 - *Capital requirement*	*Par. a,b,c,d*	**Chapter 4** - Capital requirements, liquidity ratios and leverage
	Par. e; f	**Chapter 4** - Capital requirements, liquidity ratios and leverage (Tab. 4)
	Slotting criteria	**Chapter 4** - Capital requirements, liquidity ratios and leverage (Tab. 4.3)
Art. 440 - *Capital Buffers*	*Par.a;*	**Chapter 4** - Capital requirements, liquidity ratios and leverage
	Par. b	**Chapter 4** - Section countercyclical capital buffer (Tab.4.7)
Art. 445 - *Exposure to market risk*		**Chapter 4** - Capital requirements, liquidity ratios and leverage (Tab. 4; Tab.4.4)
Art. 450 - *Remuneration Policy*		**Introduction**: reference to BMPS: *https://www.gruppomps.it/corporate-governance/remunerazione.html*
Art. 451 - *Leverage*		**Chapter 4 -** Capital Requirements, liquidity ratios and leverage (Tab. 4.8)

Appendix 2 - Details of Information provided in compliance with EBA Guidelines GL 2016/11

Guidelines on disclosure requirements EBA/GL/2016/11		*Reference to the present document Pillar III*
EU OV1	*Overview of RWAs*	**Chapter 4** - Capital requirements, liquidity ratios and leverage (Tab. 4b)
EU CR8	*RWA flow statements of credit risk exposures under the IRB approach*	**Chapter 4** - Capital requirements, liquidity ratios and leverage (Tab. 4.6)

Appendix 3 - Details of Information provided in compliance with EBA Guidelines GL 2018/01

Guidelines on disclosure requirements IFRS 9 EBA/GL/2018/01		*Pillar III Report Location*
IFRS 9	*Comparison of institutions' own funds and capital and leverage ratios with and without the application of transitional arrangements for IFRS 9 or analogous ECLs*	**Chapter 4** - Capital requirements, liquidity ratios and leverage (Tab. 4a)

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